

Lights! Camera! Action

*by John Tuccillo, PhD
June, 2003*

Life certainly imitates art. Seeing pictures of advancing American (or coalition) force in the Iraqi desert reminds me of a scene out of "Star Wars". The new language of war—weapons of mass destruction, embedded news people, evildoers, and other words no one uses in normal conversation sounds like newspeak from 1984. The constant polling to see if Americans favor the war brings back memories of the great movie, "Network." All that's missing is the Marx Brothers singing, "To war, to war; we're gonna go to war" as they march off to defend fair Fredonia. No wonder they call the site of battle the theater of war.

None of this is meant to demean the efforts of any of our young men and women who give their all (in some cases their lives) to rid the world of evil. I have only respect and admiration for them. Rather, it's meant to introduce some reality into the diversion from the Middle East. Back here in the real world, the economy is in sorry shape and is flirting with a return to the Seventies. And the war against Iraq will do nothing to help; in fact, it may tip the economy over the edge. Let's take a hard look on where this economy is now and is likely to go.

Consumers are in the dumps. The confidence level is the lowest it's been in ten years, and is lingering around a number that is on the dreadful side of the ledger. The Conference Board index is balanced at 80; it is now below that. If oil prices increase further or even stay where they are now, the gloom will only deepen. The stock market rally at the beginning of the war indicates that victory will expand confidence, but that will be a temporary lift. With low to no job creation, the likelihood is that confidence will come back permanently only slowly. Interest rates are as low as they will go. So far, the interest rate sensitive sectors of the economy, particularly real estate, have carried the load of growth. But rates are now about at the bottom, so whatever boost they have given to the economy is beginning to play out. It now appears that interest rates will rise at the end of this year and steadily through 2004, with the speed and the distance dependent on how much inflation we get from the growing Federal deficit (see below). In any case, despite the tremendously positive demographic profile of the American housing market, the real estate sector will slow through the end of 2003 and into 2004. Business investment is sluggish. Most forecaster who saw a resilient economy in 2003 pinned their hopes on the revival of business investment, spearheaded by technological hardware.

In an economy this size, some companies are always gearing up so there is investment. But this is balanced by substantial cutbacks in major industries like the airlines, where both jobs and investment decline. Moreover, the scandals that have rocked corporate America continue, with Health South the latest case. The scandals cast doubt on profits reports and that in turn keeps investor confidence and stock prices depressed.

The Federal deficit is once again with us. Before accounting for the war, and even factoring in the reduction by the Congress of the administration's tax cut, the current Federal budget is \$400 billion in deficit. When you add back the cost of the war and its aftermath, the rebuilding of Iraq, the deficits grow by close to \$100 billion. And they will be with us for at least five years. The government will once again be competing with private companies for funds. If history and economic theory are any guides, this will signal increased inflation to the financial markets and will move interest rates up. The confluence of trends and events suggests a stagnant and potentially declining economy. Like any economy, the question for real estate professionals is not whether this is good or bad, but rather what you can do to prosper as the economy slows. After all, good people who are prepared will make money in a down market. Try the three "G"s.

- Get lean and mean. Now is the time to look carefully at your operation. Determine what yields you the most profit and what gives you the least and adjust your efforts toward the former and away from the latter. And cut costs.
- Get creative. When the market turns toward buyers, you need to increase your offerings toward the buy side and be careful to convince your sellers that accurate pricing is always the best tactic.
- Grow your business. When the economy sours, expertise becomes more valuable. Position yourself to be the invaluable counselor and partner to your customers and clients by understanding and meeting all their needs.

As with the last two recessions, the coming down economy will be mediocre rather than plain bad. But you need to concentrate on your business now to ensure success as it happens.